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FEBRUARY 1971

DEMAND AND PRICE Situation

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Table 1.—Selected measures of economic activity

Item	Year 1969	Year 1970[1]	1969 II	1969 III	1969 IV	1970 II	1970 III	1970 IV[1]
				Billion dollars				
Gross national product	931.4	976.8	923.7	942.6	951.7	971.1	985.5	990.9
Disposable personal income	631.6	684.7	623.0	640.6	650.6	683.6	693.0	696.9
Personal consumption expenditures	577.5	616.8	573.3	582.1	592.6	614.4	622.1	627.6
Food spending (excluding alcoholic beverages)	105.3	114.3	104.4	105.8	108.2	113.9	114.8	116.8
				1958=100				
Implicit price deflator for GNP	128.1	134.9	127.2	129.0	130.5	134.0	135.5	137.4
				Percent				
Unemployment rate[2]	3.5	4.9	3.5	3.6	3.6	4.8	5.2	5.8
				Billion dollars				
Cash receipts from farm marketings	47.2	48.7	47.4	47.4	47.6	49.0	48.8	48.0
Farm production expenses	38.4	40.4	38.6	38.6	39.0	40.1	40.8	40.9
Realized net farm income	16.2	15.8	16.0	16.2	16.2	16.1	15.7	14.9
				1967=100				
Volume of farm marketings	102	103	80	104	134	83	103	132
Livestock and products	101	103	100	101	106	102	102	109
Crops	104	103	52	109	171	58	103	162
Agricultural exports[3]	5.9	7.2	1.7	1.4	1.9	1.7	1.6	2.2
Agricultural imports[3]	5.0	5.7	1.4	1.2	1.4	1.4	1.4	1.4
				1967=100				
Prices received by farmers[4]	108	110	109	109	111	111	111	106
Livestock	117	118	116	119	121	118	117	110
Crops	97	101	100	97	96	101	103	101
Prices paid by farmers[4,5]	109	114	110	109	111	113	114	115
Wholesale price index, all commodities[4]	106.5	110.4	106.2	106.9	108.0	110.1	110.8	111.0
Consumer price index, all items[4]	109.8	116.3	109.1	110.7	112.2	115.7	117.0	118.6
All food	108.9	115.0	107.7	110.4	111.5	114.9	115.8	115.2

[1] Preliminary. [2] Unemployment as a percent of the civilian labor force. [3] Actual values, not seasonally adjusted annual rates. [4] Not seasonally adjusted. [5] Including interest, taxes, and wage rates.

Departments of Agriculture, Commerce, and Labor.

ANNUAL OUTLOOK CONFERENCE SCHEDULED FOR FEBRUARY 1971

The National Agricultural Outlook Conference is scheduled for February 23 to 26, 1971. The Conference will give emphasis to the general domestic and international economic situation with time also devoted to the Commodity Sessions.

DEMAND AND PRICE SITUATION

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Approved by
The Outlook and Situation Board
and Summary released
February 5, 1971

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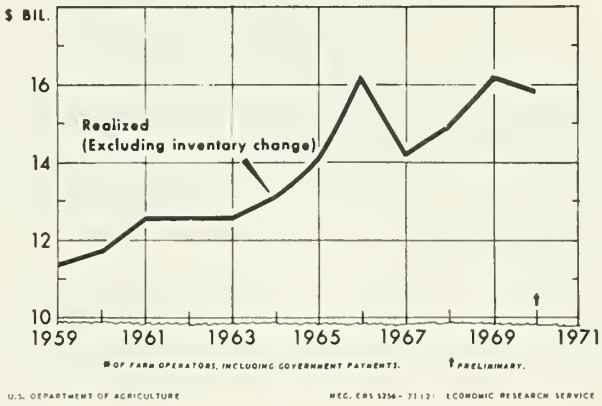
The *Demand and Price Situation* is published in February, May, August, and November.

SUMMARY

Agriculture faces a year of substantial change as supply conditions adjust and demand improves. Large supplies of livestock and products have reduced their prices enough to offset increased crop prices, and hold average farm product prices below last winter's levels. Prices for farm products should strengthen by around midyear, as the increases in livestock output taper off. Moreover, strengthening in the general economy should improve the agricultural situation. Even though acreages for grains and soybeans will probably expand in 1971, the increase in supplies will be limited by reduced carryover stocks.

Several additional uncertainties this season are adding to the difficulties in appraising the agricultural outlook. The reaction of farmers to the revised crop programs authorized by the Agricultural Act of 1970, is uncertain. And at the same time, grain farmers and livestock producers are concerned over the possibility of another outbreak of Southern corn leaf blight.

REALIZED NET FARM INCOME*



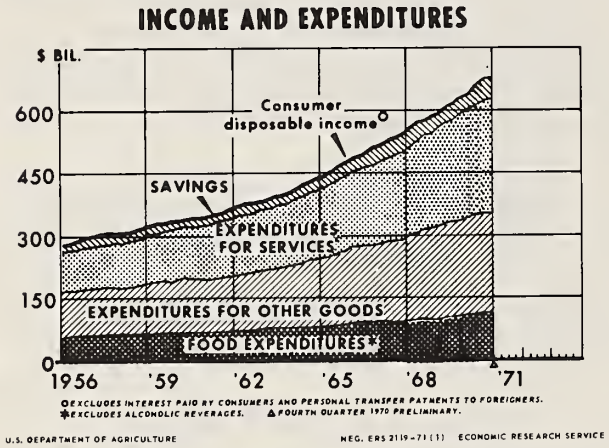
Cash receipts from farm marketings are expected to increase moderately in 1971. Livestock receipts may show little change but crop receipts will likely be up substantially. Although direct government payments will probably decline, realized gross farm income is expected to exceed the previous record of 1970.

Production expenses, however, will surely advance again in 1971, although smaller cost increases are expected for some inputs. The increase in expenses will more than offset the gain in gross income, reducing farmers' realized net income from 1970's $15.8 billion. However, incomes are expected to improve after midyear.

The economy shows fairly good prospects for an expansion in real output after declining in 1970 for the first time in 12 years. Productivity is rising, short-term

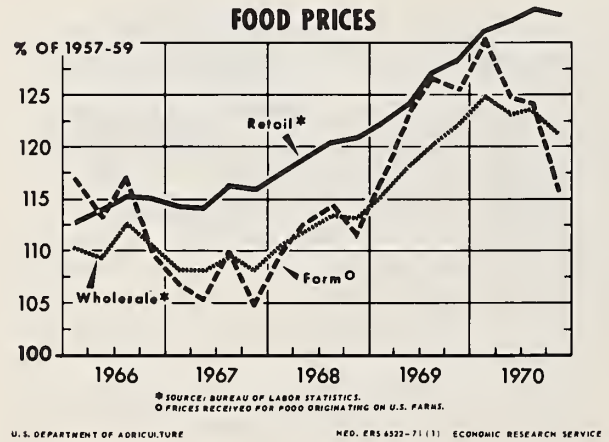
interest rates are moving lower, and housing shows considerable strength. Also, the stock market has made recent gains. But employment and rising costs remain critical problems.

Steel stockpiling by major users anticipating a possible strike and a catch-up in auto production are expected to pep up the business climate in the first half of 1971. This impetus for improvement, combined with expansive fiscal and monetary policies, will help bolster economic activity throughout the year. And housing is expected to play a major role in the 1971 recovery as more funds become available to the mortgage market.



Rising wage rates, some further reduction in personal taxes, and increased transfer payments will lead to further gains in disposable personal incomes. This should mean further increases in spending for food and other consumer items, especially if personal savings rates decline further. For 1971, after-tax incomes may rise around 7%, somewhat less than the very large 8½% increase last year.

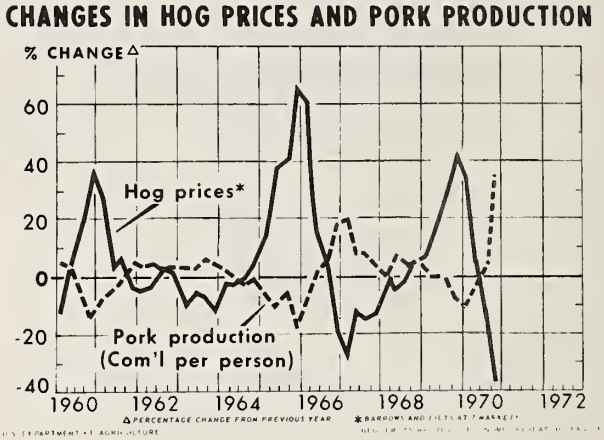
Indications of large food supplies and prospects for farm food product prices to run below a year earlier in the first half of 1971 suggest that retail food prices will increase only slightly in coming months. Later in the year, meat supplies may become less plentiful and farm food prices will likely strengthen some. But marketing margins will likely rise more slowly in this period than a year earlier and temper the year-to-year rise in retail food prices. Thus, for 1971 as a whole, food prices in grocery stores are expected to average only slightly higher. But prices for away-from-home eating will continue their strong advance, reflecting the rising cost of services. Accordingly, retail food prices are expected to average around 2 to 3% higher for the year, nearly in line with average annual increases during the decade of the sixties.



The U.S. agricultural export outlook into summer remains very favorable. Export volume of a number of major commodities is expected to be up, and prices of major export commodities such as grains and oilseeds and products are holding firm. For fiscal 1971, U.S. agricultural exports will exceed $7 billion compared with $6.6 billion in 1969/70.

. . . Outlook for major farm commodities . . .

. . . *Hog* slaughter continues large, but prices, though down sharply from a year ago, have picked up. Producers probably will cutback farrowings during the spring.



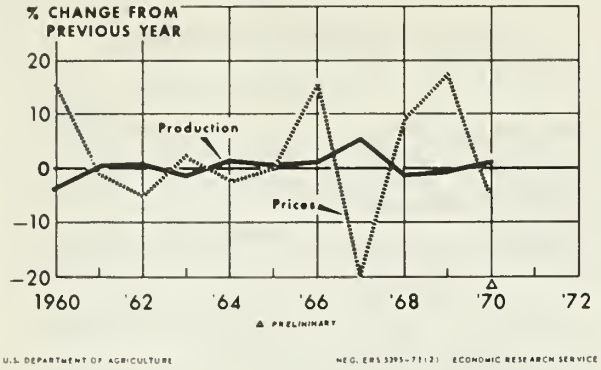
. . . *Cattle on feed* are down 3% from January 1970, but marketings may not be much different from a year earlier through spring. With demand expected to improve, prices are likely to continue firm.

. . . *Broiler* output is turning down slightly. Even so, prices may face trouble from big pork supplies.

. . . *Turkey* meat output this winter and spring will be up substantially and prices lower than last year.

. . . *Eggs* are still coming in large numbers. And prices, down since last winter, likely will drop further as output increases seasonally into spring.

EGGS: CHANGES IN PRODUCTION AND FARM PRICES



. . . More *milk* appears on the way again this year. Prices may be up slightly.

. . . *Wool* may be favored by an expanding economy, but still faces stiff competition from man-made fibers.

. . . Disappearance of *feed grains* is running slightly above last season despite a smaller supply. Because use is expected to exceed production, prices are continuing strong.

. . . Strong *wheat* export demand and heavy domestic use are lowering stocks this season. If demand continues brisk as expected, prices should remain above last season.

. . . *Soybean* utilization is climbing to another high during 1970/71. Stocks are declining and by the end of the season may drop to minimum operating levels.

. . . *Cotton* use will exceed production during 1970/71, causing the carryover next August to fall sharply below stocks of last August.

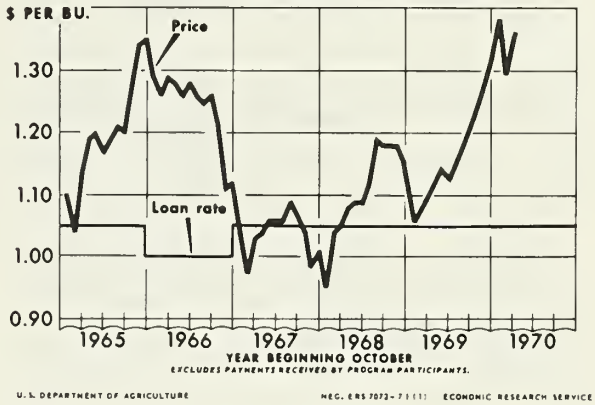
. . . Disappearance of *tobacco* during 1970/71 is running behind last season. Carryover stocks may hold around the year-earlier levels. A smaller tobacco crop is expected in 1971.

. . . A bigger *citrus crop* was estimated on January 1, but subfreezing weather hit several areas during January.

. . . More winter *fresh vegetables* had been indicated. However, the January freeze caught tender vegetable crops in Florida. Moderately smaller supplies of *processed vegetables* are on the shelf this season.

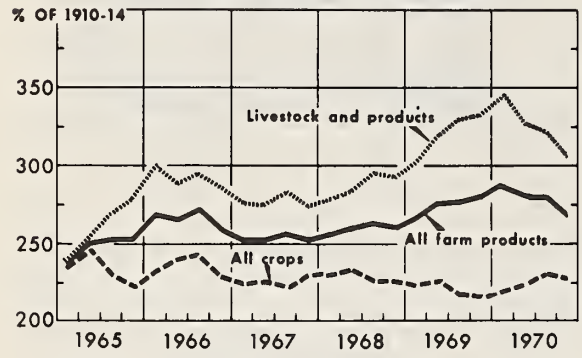
. . . The outlook for *timber products* in 1971 points to expanding production and rising prices.

CORN PRICES RECEIVED BY FARMERS



Large supplies of livestock and products in early 1971 are holding average producer prices below the relatively high levels of last winter. Prices for most crops, however, have strengthened materially in response to a tightening in the supply-demand balance for the major field crops. Even so, the level of farm product prices is expected to average below a year earlier until around midyear. After that, production increases for livestock products are expected to taper off and prices will firm up, particularly as consumer demand continues to improve. Supply prospects for 1971 crops at this time are very uncertain, although growers have reported intentions to plant larger acreages to grains and soybeans this season. Crop prices may moderate seasonally in the latter part of the year, but supplies will likely continue relatively tight for major crops in 1971.

PRICES RECEIVED BY FARMERS



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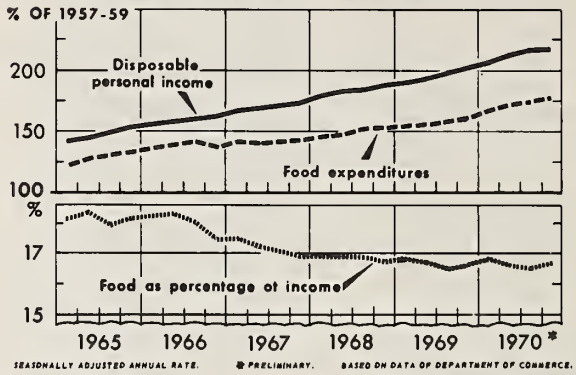
Demand for Farm Products

Economic activity declined this fall mainly due to the 10-week auto strike. As a result, consumers' after-tax incomes in the fourth quarter registered one of the smallest advances in years. Even so, spending at retail expanded moderately in the fourth quarter for food, beverages, tobacco, and clothing which contain products that originate on farms. This brought outlays for the above items for the year to $195.4 billion, an increase of 7½% over 1969. Late in the year consumers cut back their savings and apparently shifted some spending away from durables and into food and other nondurables as well as services.

Expenditures for food picked up in the fourth quarter of 1970 to a seasonally adjusted annual rate of $116.8 billion. This advance brought total spending for food in 1970 to $114.3 billion. With rising incomes, the larger outlays for food accounted for 16.7% of disposable personal income, about the same as in 1969.

FOOD EXPENDITURES AND INCOME



SEASONALLY ADJUSTED ANNUAL RATE. * PRELIMINARY. BASED ON DATA OF DEPARTMENT OF COMMERCE.

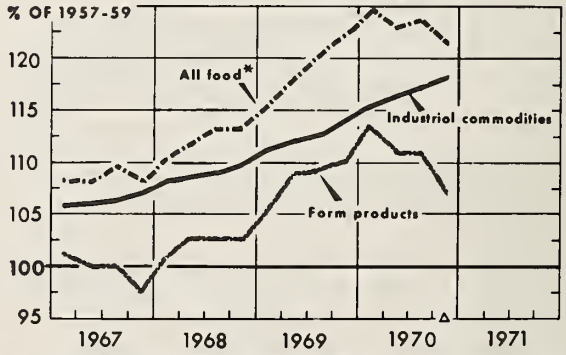
U. S. DEPARTMENT OF AGRICULTURE — NEG. ERS 5281-71 (1) ECONOMIC RESEARCH SERVICE

Although unemployment rates are higher as 1971 gets underway, wage rate advances and increased income tax exemptions favor a gain in consumers' disposable personal incomes for 1971. The indicated increase in after-tax income for this year, however, is not likely to match the upsurge of nearly 8½% in 1970. Thus, outlays for food will probably show a more moderate increase for 1971.

The outlook for 1971 points to an overall increase in per capita food use of both crop and livestock products. Among the crop products, sizable increases appear likely for some processed fruits and juices, while slight gains are expected for vegetable oils, potatoes, and some processed vegetables. For animal products, most of the boost in consumption will be in pork. Per capita consumption of turkey may run larger, cheese consumption is expected to rise slightly, and beef may hold steady though some slight pickup is indicated for later in the year. Lamb, veal, and most dairy products will continue to make up declining shares of diets.

Prices for food in grocery stores drifted lower during the second half of 1970 as food supplies expanded and farm food commodity prices declined. However, the

SELECTED WHOLESALE PRICES



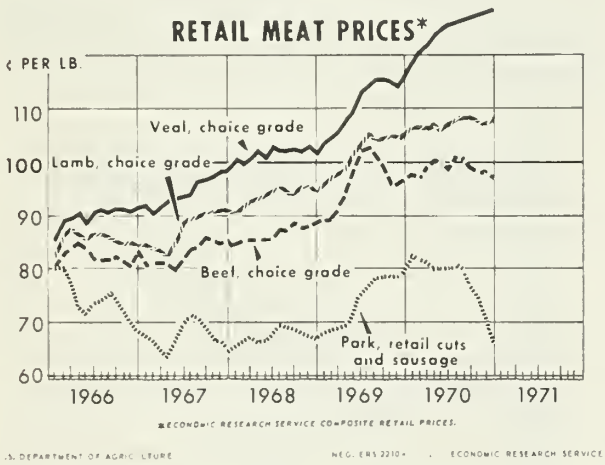
* ALL FOOD INCLUDES ALL PROCESSED FOODS PLUS EGGS AND FRESH AND DRIED FRUITS AND VEGETABLES FROM THE FARM PRODUCTS GROUP. BASED ON DATA OF THE BUREAU OF LABOR STATISTICS. △PRELIMINARY.

U. S. DEPARTMENT OF AGRICULTURE — NEG. ERS 5764-71 (2) ECONOMIC RESEARCH SERVICE

drop was moderated by sharply higher marketing charges (the spread between farm and retail prices). At the same time, however, retail prices of many nonfood items continued to advance practically unabated, leaving most of the moderation in inflation due to declines in prices of food and other farm products.

Despite the second half 1970 easing, retail food prices for the year averaged 5½% above those in 1969. Food prices in grocery stores were up 5%, while costs of eating out spurted 7½% from a year earlier. But prices received by farmers for food commodities averaged only fractionally higher for the year, while the spread between farm and retail prices shot up 7%.

Larger food supplies, and prospects that farm food product prices will average below a year earlier during the first half of 1971, suggest that retail food prices will increase only slightly in coming months. Later in the year, meat supplies may become less plentiful and farm prices will likely strengthen some. But marketing margins are expected to rise more slowly than in 1970 and this would temper the rise in retail prices.



Thus, for 1971 as a whole, food prices in grocery stores are expected to average only slightly higher. Prices of food eaten away from home will continue to advance sharply, reflecting the rising cost of services. Accordingly, overall retail food prices are expected to average around 2 to 3% higher for the year, nearly in line with the average annual increase during the decade of the sixties.

Spending for alcoholic beverages continued to advance moderately in 1970. Total outlays climbed to a record $17.4 billion, reflecting higher prices, rising incomes, and changing social customs. Demand currently appears strongest for wines and distilled products, with malt liquors trailing slightly behind. Total outlays are expected to expand by around another $1 billion in 1971.

Last year consumers spent $52.3 billion on clothing and shoes at retail. This was an increase of 5% over the previous year with most of the pickup coming from higher prices. Although increasing population, rising incomes, and changing fashions continue to boost the demand for clothing, use of farm products—cotton and wool—is declining in importance because of intense competition from man-made substitutes. Cotton's share of the 1970 textile market, however, remained near the previous level, despite a small decline in total use.

Although consumers spent more on tobacco in 1970, they apparently smoked less per person. Consumer outlays for tobacco (in all forms) climbed more than 12% in 1970, from the $10 billion in the previous year. Larger expenditures were mainly due to higher retail taxes. The year 1971 will likely see a further tailing off in per capita cigarette use because of anti-smoking publicity, higher retail costs, and the ban on cigarette advertising on TV and radio.

Exports and Imports of Agricultural Products

Exports of U.S. agricultural products rose to a record $2.2 billion during October-December. This marked a 16% increase over a year earlier. For the second half of 1970, the $3.8 billion of agricultural products sold abroad exceeded the previous July-December high set in 1966 by $247 million. Expanded sales of wheat accounted for nearly one third of the export gain. The export value of soybeans and products, tallow, dairy products, feed grains, and protein meal have also increased so far this year. Partially offsetting declines were noted for tobacco, rice, meats, canned fruits, and hides and skins.

U.S. Agricultural exports, value of major commodities

Commodity	July-December		Percentage change
	1969	1970[1]	
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	376	431	15
Cotton	123	149	21
Feed grains, excluding products	556	633	14
Fruits	187	180	-4
Soybeans	494	641	30
Tobacco, unmanufactured	348	297	-15
Vegetables	99	97	-2
Wheat and flour	441	612	39
Rice	166	151	-9
Other	513	640	25
Total exports	3,303	3,831	16

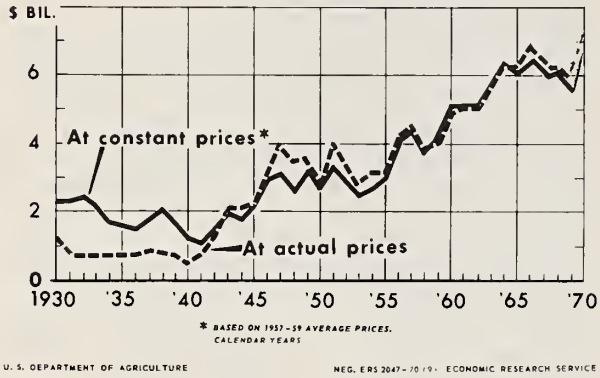
[1] Preliminary.

The U.S. agricultural export outlook into summer remains very favorable. Export volume of a number of major commodities is expected to be larger, and prices of major export commodities such as grains and oilseeds and products are holding firm. For all of fiscal 1971, U.S. agricultural exports will exceed $7 billion compared with $6.6 billion in 1969/70.

A poor wheat crop in Europe and lower output in traditional wheat exporting countries has reduced world supplies and opened new markets for U.S. wheat. Wheat exports are expected to total 725-750 million bushels in

1970/71 compared with the 606 million bushels of the previous season. Higher feed grain prices, especially for corn, will likely result in a 5 to 10% drop in the volume of feed grain exports this year, down from the 21.2 million tons of 1969/70. Tight world supplies of fats and oils point to some pickup for soybean exports in 1970/71. The outlook for cotton exports is for some improvement as a result of sharply lower foreign Free-World production and a slight increase in foreign usage. Declines in volume are likely for exports of tobacco and possibly rice.

U.S. AGRICULTURAL EXPORTS, BY VALUE



U.S. agricultural imports ran nearly $2.8 billion in the second half of 1970. The 7% advance in value reflected increases in both volume and prices. The $1.8 billion of competitive (supplementary) imports was up 11% over a year ago, while the slightly more than $1 billion of noncompetitive (complementary) imports showed little gain.

Imports of competitive supplies advanced for live animals, dairy products, meat, fruit, edible nuts, coconut oil, sugar, and wines. Declines were recorded for imports of hides, apparel wool, and cotton.

Complementary imports advanced in total volume and value for bananas, chocolate, oils, and spices. Declines in both volume and value were noted for crude rubber and carpet wool. The quantity of green coffee imported fell 17% but the dollar value rose 13%, due to higher prices resulting from the 1969 freeze damage which cut the 1970 Brazilian crop.

U.S. agricultural trade balance, July-December 1969 and 1970

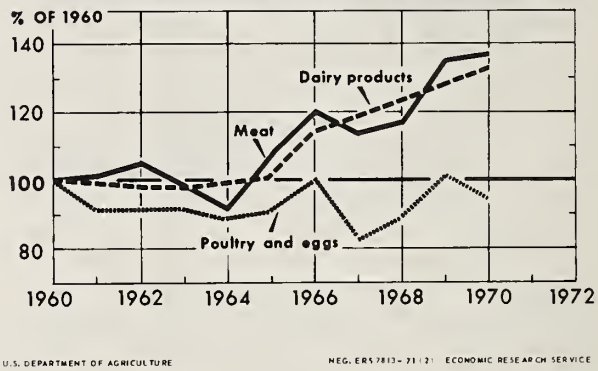
Item	1969	1970	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	3,303	3,831	16
Imports	2,602	2,788	7
Trade balance	701	1,043	49

Livestock Supply-Price Prospects

Output of livestock and products rose nearly 3% during 1970 with most of the gain coming in the second half of the year. Because of the expansion in supplies and some easing in demand conditions, producer prices for livestock products began a downslide after the relatively high levels in the first quarter of 1970. Although the average level of prices declined more than 13% through the year, for 1970 as a whole they averaged a shade above those in the previous year.

As 1971 gets underway, production prospects point to continued large supplies of livestock products through the first half of 1971. Most of the expansion will reflect continued large gains over a year earlier in pork output, and smaller increases for eggs and turkeys. By midsummer, however, production increases are expected to moderate, reflecting the very sharp declines in returns since last fall. Later in 1971, supplies may be lagging year-earlier levels. These indications suggest that average prices for livestock and products may change little from current levels, but average below a year earlier until around midyear. If supply increases are tempered as expected later in the year, and the economy picks up strength, some further price firming can be expected.

PRICES RECEIVED BY FARMERS FOR SELECTED LIVESTOCK AND LIVESTOCK PRODUCTS

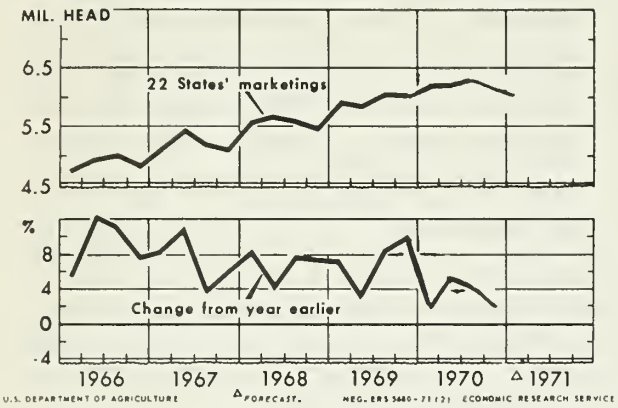


Hog slaughter in the closing months of 1970 spurted as much as a fourth above a year earlier, and barrow and gilt prices tumbled nearly 40% from those in late 1969. Hog inventories suggest that slaughter will continue nearly a fifth larger through the first half of 1971. After midyear, output will probably taper off and run only moderately above a year earlier. Fall slaughter will rise seasonally, but is expected to drift below the previous year's level, reflecting producer reactions to low hog prices and high corn prices which have prevailed since last fall.

Total beef supplies may edge slightly below a year ago in early 1971. Fed cattle marketings in the first half may be close to a year earlier. However, beef supplies will be down slightly due mainly to lighter average slaughter weights. Thus, with little indication for any

increase in the volume of marketings, and some easing in average weights, fed cattle prices are expected to continue firm in the first half. Price increases will be limited by competition from large pork supplies.

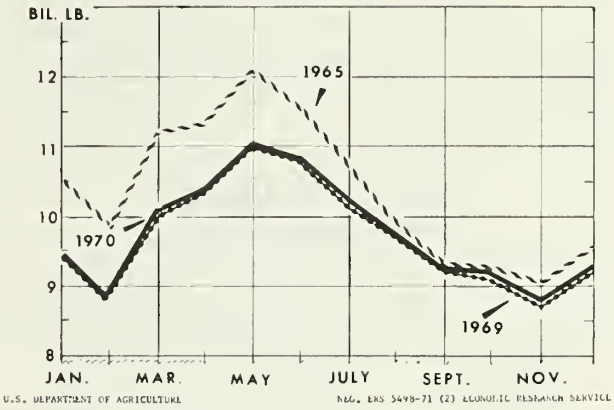
FED CATTLE MARKETINGS, BY QUARTERS



Broiler output, lagging in recent months, may average under a year earlier into mid-1971. Some pickup may occur, however, later in the year as grower returns recover some from depressed fourth quarter 1970 levels. Turkey production will continue at a high level in 1971, with big increases indicated for this winter and spring—a period of seasonally light marketings. Producer prices for turkeys will probably be under pressure because of heavy turkey and pork supplies. Egg output continues to chalk up increases, and the supply outlook points to moderate gains for the first half of 1971. However, as the year progresses, production is expected to about match the 1970 pace. Egg prices, down from last winter, are likely to average lower throughout the year.

Prospects are good for another increase in milk output this year. An ample supply of herd replacements and less favorable off-farm employment conditions indicate a slight expansion in production in 1971 despite rising dairy ration costs. With the indicated slight gain in output and little growth likely for commercial markets, producer prices for milk will probably show only a very modest increase in 1971, assuming no change in dairy support levels or in Federal milk market order pricing.

U.S. MILK PRODUCTION BY MONTHS



Crop Supplies and Prices

Supplies of the major field crops—feed grains, wheat, soybeans, and cotton—continue in closer balance with utilization than in most recent years. Carryover stocks of these commodities at the end of the season will likely drop below the previous year's level. Because of the tight supply situation, prices for feed grains and soybeans are currently averaging nearly a fifth above those of a year ago, and with higher prices for wheat, have contributed to a 7% boost in overall crop prices. Supply-demand prospects for the rest of the 1970/71 season suggest that average prices for crops will hold moderately above those of last year until harvest time.

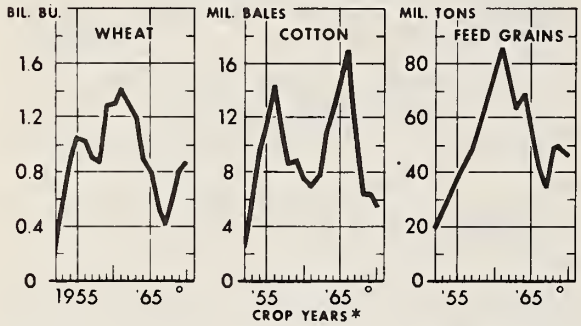
Table 2.—Production and prices received by farmers for major livestock and livestock products, 1968, 1969, 1970, and fourth quarters of 1969 and 1970

Item	Unit	Annual			Fourth quarter	
		1968	1969	1970[1]	1969	1970[1]
Production[2]						
Beef and veal	Mil. lb.	21,614	21,831	22,335	[3] 5,600	[3] 5,604
Pork	Mil. lb.	13,063	12,953	13,398	[3] 3,330	[3] 3,901
Lamb and mutton	Mil. lb.	602	550	550	[3] 133	[3] 133
Chickens	Mil. lb.	7,580	8,059	8,850	[3] 1,625	[3] 1,708
Turkeys	Mil. lb.	1,620	1,618	1,780	[3] 644	[3] 671
Eggs	Mil. lb.	9,064	9,018	9,124	2,253	2,300
Milk	Bil. lb.	117.2	116.2	116.9	[4] 27.0	[4] 27.4
Prices received by farmers						
Cattle	Dol./cwt.	23.40	26.20	27.10	25.30	25.40
Hogs	Dol./cwt.	[5] 18.50	[5] 22.20	[5] 22.80	25.20	16.20
Lambs	Dol./cwt.	24.40	27.30	26.60	27.40	24.90
Broilers	Ct./lb.	14.2	15.2	13.5	14.3	12.5
Turkeys	Ct./lb.	19.6	21.5	23.4	24.0	22.1
Eggs	Ct./doz.	34.0	40.0	37.9	48.1	36.0
All milk (wholesale)	Dol./cwt.	5.26	5.50	5.69	5.89	6.05

[1] Preliminary. [2] Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. [3] Data for 48 States. Commercial slaughter only. [4] Based on monthly data. [5] Marketing year average—December-November.

In the grains complex, corn prices have strengthened dramatically during the 1970/71 season in response to a 10% cut in output, rising demand, and uncertainty about 1971 production. However, total use is currently slightly ahead of last season's pace, despite a smaller supply. But feed use is expected to ease a little below a year earlier for the rest of the feeding year. Exports also ran a little ahead of the first quarter movement last season, but they too are expected to fall off this spring and summer. Despite a small decline in 1970/71, total use will be well above the small 1970 crop. As a result, feed grain carryover at the end of the current season is expected to drop 12 to 15 million tons below the 48 million tons at the beginning of 1970/71.

CARRYOVER OF MAJOR FARM COMMODITIES



* CROP YEARS BEGINNING: WHEAT, BARLEY, AND OATS, JULY 1; COTTON, AUGUST 1; CORN AND GRAIN SORGHUMS, OCT. 1.
° PRELIMINARY.

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The demand for wheat, due in part to higher corn prices and surging exports, has also been strong this season leading to the first reduction in stocks of wheat since 1966/67. Moreover, the demand for soybeans and products also remains very strong this season—total utilization has been running 6% above the rapid 1969 pace. Accordingly, carryover stocks of soybeans at the end of the 1970/71 season are expected to drop to minimum operating levels.

Among the nonfood crops, the pickup in cotton exports is expected to lift total use by 1 to 1½ million bales over the 1970 crop. Thus, carryover at the end of the season will likely fall sharply below the 5¾ million bales of last August. For tobacco, sluggish domestic consumption and declining exports are holding down total disappearance during 1970/71. Moreover, stocks are large.

The food crop outlook in early January pointed to moderately larger supplies of fresh vegetables this winter compared to the freeze-damaged levels of last year. Materially bigger supplies were in prospect for cabbage, celery, and tomatoes. But freezing weather on January 20 and 21 severely damaged tender vegetable crops in Florida. Because of more plentiful supplies, prices so far this season have been averaging well below the unusually high levels of last season.

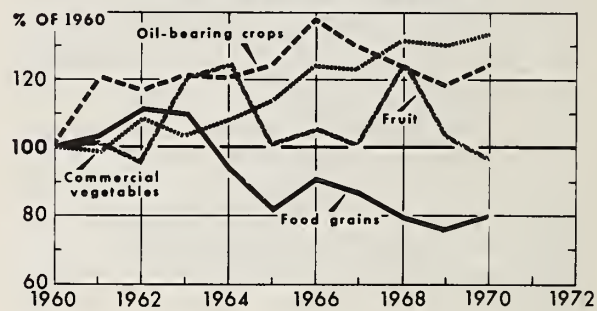
Supplies of processed vegetables are trailing moderately behind those of last year. A slightly larger canned pack is being more than offset by a sharply reduced carryover, lowering total supplies of canned vegetables moderately from last season. Moreover, new packs of major frozen vegetables have been reduced this season, with total supplies cut further by a smaller carryover. Prices of most processed items continued firm in January although some discounting was occurring.

Supplies of potatoes are running larger during 1970/71, with most of the increase again in the Northwest. Prices are under the most downward pressure in the West, despite an upsurge in the volume of potatoes used for processing.

Citrus crops chalked up what looked like big production gains early in the season. Preliminary orange production estimates were for a crop a tenth larger than last season, but a severe freeze in the third week of January damaged the Florida crop. Despite increased production, prices so far this season for fresh oranges have held up well, while prices for oranges for processing averaged under those of last year.

Because of the sharp cutback in supplies of deciduous fruits in 1970/71, prices for these items are well above last year.

PRICES RECEIVED BY FARMERS FOR SELECTED CROP PRODUCTS



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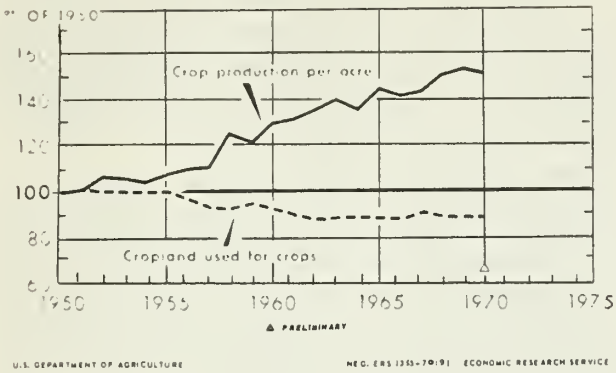
Prospective 1971 Crops

Attempting to estimate the size of the 1971 crops will be unusually difficult this year, since producers' decisions are being influenced by the recently enacted Agricultural Act of 1970. Under these provisions farmers have wider choices in use of their acreage. This will facilitate shifts in crop acreages among producers and allow individual farmers to grow crops that promise to be most profitable.

In addition to the uncertainty surrounding producer responses to the new program, there is also the possibility of another outbreak of Southern corn leaf blight in 1971. Moreover, the uncertainty for cotton and soybeans in view of the current tight supply situation clouds the crop outlook for 1971.

CROP PRODUCTION PER ACRE AND CROPLAND USED FOR CROPS



To better evaluate potential developments, a special survey of farmers' planting intentions conducted around January 1, 1971 indicated that producers plan to plant about 126 million acres to feed grains in 1971, 5% more than in 1970. Most of the indicated increase in corn plantings is in areas outside of those most affected by the blight in 1970. Even with conditions for blight similar to those last year, more favorable weather in the Western Corn Belt, indicates that corn production on the planned acreage could be around 8 to 10% above the 1970 crop. With a more favorable growing season in 1971 for the other feed grains, the production of these grains would be well above last year's output and the total feed grain crop could rise around 10% above the short crop of 1970.

Producers also indicated they planned to boost soybean plantings to a record 46 million acres this year, about a tenth more than last season. Such an increase would suggest a moderately larger crop in 1971. Cotton producers intended to plant about the same acreage of upland cotton in 1971 as the 11.9 million acres last year. Winter wheat seedlings in the fall of 1970 for harvest in 1971 totaled 38.1 million acres, 1% less than for the 1970 crop and the smallest acreage since 1957. Based on conditions as of December 1 the crop was estimated at 1,040 million bushels, 7% less than the 1970 winter wheat crop. But intentions for an upturn in spring wheat seeding suggest a slightly larger total wheat crop for 1971.

Table 3.—Supply-distribution and season average prices of selected major crops, 1967/68, 1968/69, 1969/70, and 1970/71

Item	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price
					Million tons				*Dollars per bushel*
Feed grains									
1967/68	37.1	0.3	176.0	213.4	141.8	23.3	165.1	48.3	[1] 1.03
1968/69	48.3	.3	168.9	217.5	148.9	18.4	167.3	50.2	[1] 1.08
1969/70[2]	50.2	.4	174.6	225.2	155.6	21.2	176.8	48.4	[1] 1.16
1970/71[3]	48.4	.5	159.0	207.9	154.1	19.8	173.9	34.0	[1] 1.34
					Million bushels				
Wheat									
1967/68	425.0	.9	1,522.4	1,948.3	647.8	761.1	1,408.9	539.4	1.39
1968/69	539.4	1.1	1,576.2	2,116.7	753.9	544.2	1,298.1	818.6	1.24
1969/70[2]	818.6	3.2	1,460.2	2,282.0	791.2	606.1	1,397.3	884.7	1.24
1970/71[3]	885	1	1,378	2,264	820	725-750	1,545-1,570	694-719	1.36
					Million hundredweight				
Rice									
1967/68	8.5	([4])	89.4	97.9	[5] 34.2	56.9	91.1	6.8	4.97
1968/69	6.8	([4])	104.1	110.9	[5] 38.5	56.2	94.7	16.2	5.00
1969/70[2]	16.2	.2	90.8	107.3	[5] 36.0	54.9	90.9	16.4	4.95
1970/71[3]	16.4	.2	82.9	99.5					5.08
					Million bushels				
Soybeans									
1967/68	90.1	0	976.1	1,066.2	633.3	266.6	899.9	166.3	2.49
1968/69	166.3	0	1,103.1	1,269.4	658.2	286.8	945.0	324.4	2.43
1969/70[2]	324.4	0	1,126.3	1,450.7	791.9	428.7	1,220.6	230.1	2.35
1970/71[3]	230.1	0	1,135.8	1,365.9	846	450	1,296	70	2.82
					Million bales				*Cents per pound*
Cotton[6]									
1967/68	12.5	[7] .1	7.2	19.9	9.0	4.2	13.2	6.4	25.59
1968/69	6.4	[7] .1	11.0	17.5	8.2	2.7	11.0	6.5	22.15
1969/70[2]	6.5	[7] .1	9.9	16.5	8.0	2.8	10.8	5.8	21.09
1970/71[3]	5.8	[7] .1	10.2	16.1	8.0	3.5	11.5	4.5	22.5

[1] Price for corn. [2] Preliminary. [3] Estimated. [4] Less than 50,000 cwt. [5] Includes the following statistical discrepancies: 1967/68, 0.6, 1968/69, 2.8, and 1969/70, 0.9 mil. cwt. [6] Production based on ginnings between August 1 and July 31. [7] Includes city crop. 1970/71 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding.

Tobacco was not affected by the Agricultural Act of 1970. The 1971 crop is expected to decline from last season's output. The flue-cured quota is unchanged from the 1970 season, but a smaller adjustment for net undermarketings gives an effective quota a tenth below 1970's level. Announcement of burley allotments has been postponed while new legislation is considered.

Timber Products

Lumber and plywood production in 1970 was somewhat below the levels attained in 1969. However, in late 1970 production, new orders, and shipments were generally rising on a seasonally adjusted basis. Lumber and plywood prices followed about the same trends as production, falling in late 1970 but rising in early 1971.

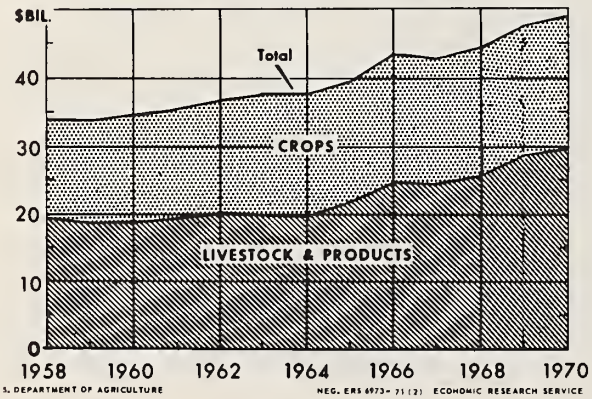
Trends in most of the plywood and lumber markets indicate that production and prices may continue to rise in 1971. Anticipated growth in residential construction should lead to substantial increases in the demand for softwood construction lumber and plywood. Increases in furniture manufacturing, which usually accompany a rise in residential building, may also stimulate the demand for hardwood lumber and plywood.

The production of pulpwood in 1970 increased about 5%. Recent trends in economic activity indicate that production is likely to continue to rise in 1971. Pulpwood prices have not shown much change in recent years.

Farm Income

Farm incomes started off in 1970 on a strong note. But as big increases in livestock marketings came on stream around midyear, livestock and product prices fell below year-earlier levels and reduced the flow of net farm income from the first half pace. At the same time, last year's reduced corn crop jacked up feed costs sharply in the fall and further depressed net incomes of livestock producers. Although crop prices strengthened in the summer and helped to increase total cash receipts, rising production costs reduced realized net farm income sharply in the closing months of 1970.

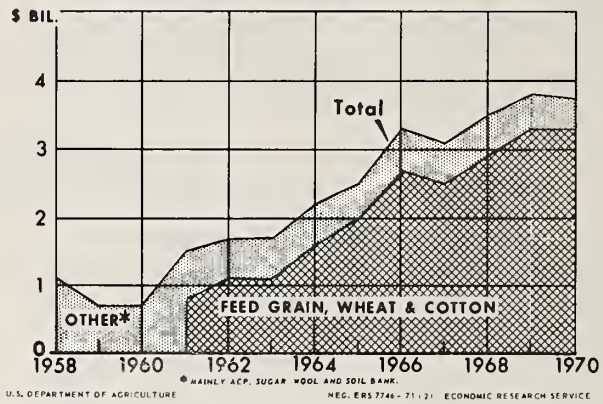
CASH RECEIPTS FROM MARKETINGS



Farmers' cash receipts for 1970 totaled $48.7 billion, up $1½ billion from a year earlier. Larger receipts from both livestock and crop marketings contributed to the advance. Direct government payments dipped slightly, but realized gross farm income moved to a new high of $56.2 billion from $54.6 billion in 1969.

The uptrend in production expenses continued in 1970 and totaled $40.4 billion for the year. This was up $2 billion from 1969, with nearly all of the increase due to an upsurge in input prices. With production outlays increasing more than the rise in gross income, realized net income for the year slipped to $15.8 billion, compared with $16.2 billion in 1969. Income per farm, however, remained close to the 1969 record level.

GOVERNMENT PAYMENTS TO FARMERS



Farm incomes—particularly for livestock producers—are lagging early in 1971. Large supplies of livestock and products are expected to limit price advances until midyear and hold average prices below those of 1969. Moreover, higher feed costs continue to reduce net returns of livestock producers. However, prices for most crops remain strong and prospective increases in crop receipts in the first half of 1971 will help maintain gross farm income.

A brighter income picture appears in the making for the second half of 1971, especially for some livestock producers. Later in the year, livestock producers will likely be curbing output in response to unfavorable returns since last fall. Moreover, expectations for a resurgence in general demand conditions pave the way for some recovery in livestock prices after midyear. Even though acreages for grains and soybeans will probably expand in 1971, the increase in supplies will be limited by reduced carryover stocks.

These tentative indications for prices and marketings set the stage for a modest increase in cash receipts for 1971 as a whole. Livestock receipts may hold about steady, but larger receipts are expected from crop marketings. Although direct government payments will probably be lower, realized gross farm income may run a

little above the 1970 level. Production expenses, however, will advance again in 1971, although smaller cost increases are expected for some inputs. This will likely reduce farmers' realized net farm income from 1970's $15.8 billion. However, incomes are expected to be improving toward the end of the year.

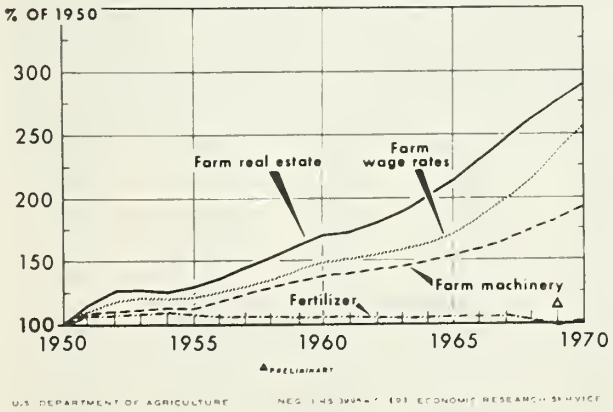
Gross Farm Product

Gross product originating in farming (the total value of farm output minus the value of intermediate products consumed) totaled $28.1 billion in 1970. This was an increase of slightly more than 2% over the 1969 level. Most of the gain came in early 1970 when higher receipts from livestock marketings boosted the total value of farm output. With receipts peaking early in the year, gross farm product drifted lower after the first quarter, and by the closing months of the year totaled slightly below the year-earlier rate. Intermediate products, reflecting mainly higher input prices, climbed moderately during 1970.

Farm Inputs

Prices paid by farmers for production items, interest, taxes, and wage rates rose 4½% in 1970. Largest increases were recorded for interest charges and taxes, with price increases for feed, seed, and motor vehicles including tractors close behind. The only offset in 1970 was a continued decrease in some fertilizer prices.

PRICES OF SELECTED FARM INPUTS

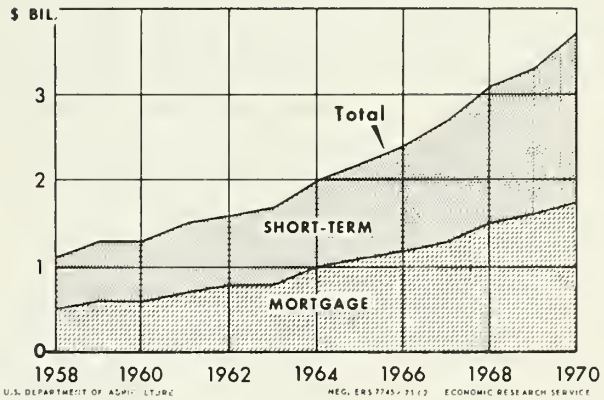


The composite farm wage rate, a weighted average of time rates on a per hour basis, rose to $1.42 in 1970, 7% above the 1969 rate. Wage rates increased sharply in all regions with the largest gain in the Middle Atlantic and East South Central States. Sluggish growth in off-farm employment opportunities in 1971 may be a moderating factor in wage rate increases this year.

In 1970 overcapacity in the fertilizer industry continued to run counter to manufacturers' attempts to strengthen prices by balancing supplies with prospective use. In addition, quantity discounts apparently wiped out some increases in list prices. The outlook for 1971 is for some increase in utilization due to a projected expansion in planted acreage to the major crops. However, excess supplies are expected to continue to hold fertilizer prices down.

The total value of farm real estate rose to $210.7 billion in 1970, a less than 2% increase over 1969 and the smallest percentage gain in a decade. The national average value of an acre of farmland increased slightly to $195. Land values declined in 5 States with the sharpest drops reported in Kansas and California. For 1971, demand for farmland is expected to remain sluggish. However, falling interest rates and a more readily available supply of loanable funds could encourage some pickup in market activity.

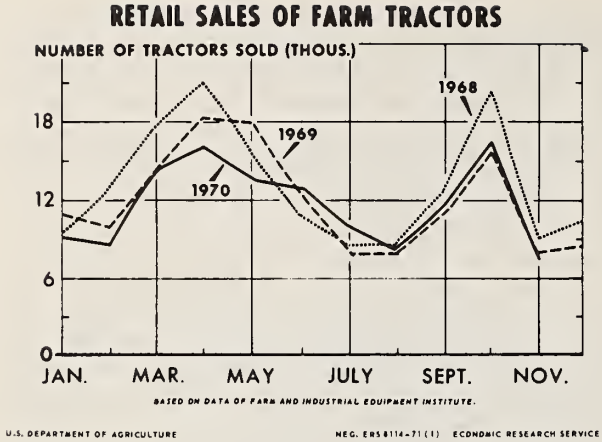
INTEREST PAID BY FARMERS



Farm debt, excluding CCC loans, increased nearly 5% in 1970 to $58.7 billion. Non-real estate debt accounted for most of the $3.3 billion advance in the farm debt as higher interest rates dampened farmers' demand for long-term mortgage loans. Expectations for 1971 are for some increase in the demand for farm credit as farmers seek funds for capital improvements. If the downturn in interest charges persists, there may be some acceleration in the demand for mortgage loans.

The retail market for farm machinery and equipment in 1970 reflected the continuing trend toward larger and more mechanized farms. Total sales volume was running below the 1969 level for most categories of farm equipment and tractors, but the preference exhibited in recent years for larger and more powerful units continued to be evident. In 1971 retail sales of farm machinery and equipment may receive a push from the projected increase in planted acreage.

Retail sales of farm tractors in 1970 averaged 5% below the sales volume of 1969, according to the Farm and Industrial Equipment Institute. After a sluggish performance in the first half of the year, tractor sales exceeded year-ago rates for 5 consecutive months from



June to October. However, the peak of the recovery occurred during the summer when sales are normally slack.

Sales of other farm machinery in 1970 as reported by the Farm and Industrial Equipment Institute followed a pattern similar to farm tractors. For the most part, units sold trailed the 1969 level but the larger machines moved the value of sales above a year ago. Purchases of the largest class of combines ($12,500 per unit or more) ran substantially larger in 1970. In addition, sales of the 4-row and larger corn heads for combines expanded enough to push total corn head sales moderately above 1969. Sales of corn pickers and other harvesting equipment in 1970 ran moderately below 1969 levels.

• • • • •

Table 4.—General economic activity

(Seasonally adjusted annual rates)

Item	Year 1969	Year 1970[1]	1970 I	1970 II	1970 III	1970 IV[1]
	Billion dollars					
Gross national product	931.4	976.8	959.5	971.1	985.5	990.9
Gross national product (1958 dollars)	727.1	724.3	723.8	724.9	727.4	721.3
Disposable personal income	631.6	684.7	665.3	683.6	693.0	696.9
Personal consumption expenditures	577.5	616.8	603.1	614.4	622.1	627.6
Durable	90.0	89.4	89.1	91.9	91.2	85.4
Nondurable	245.8	264.7	258.8	262.6	265.8	271.7
Services	241.6	262.7	255.2	259.9	265.1	270.5
Personal savings	37.6	50.0	44.8	51.5	52.7	50.9
Net government receipts	220.8	211.0	218.4	207.4	209.9	---
Government purchases	212.2	220.5	219.6	218.4	221.0	223.2
Federal	101.3	99.7	102.3	99.7	98.6	98.4
State and local	110.8	120.8	117.4	118.7	122.4	124.8
Deficit or surplus (on income and product accounts)	8.7	-9.6	-1.2	-10.9	-11.2	---
Gross private domestic investment	139.8	135.8	133.2	134.3	138.3	137.5
Fixed investment	131.4	132.2	131.6	131.2	132.7	133.4
Residential	32.0	29.6	29.1	28.4	29.2	32.0
Nonresidential	99.3	102.6	102.6	102.8	103.6	101.4
Change in business inventories	8.5	3.6	1.6	3.1	5.5	4.1
Gross retained earnings	97.3	98.6	95.7	97.9	99.1	---
Excess of investment	-42.5	-37.2	-37.5	-36.4	-39.2	---
Net exports of goods and services	1.9	3.6	3.5	4.1	4.2	2.7
Per capita disposable personal income (1958 dollars)	2,517	2,579	2,556	2,594	2,597	2,568
Total civilian employment (millions)[2]	77.9	78.6	79.0	78.5	78.5	78.7

[1] Preliminary. [2] U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The economy shows fairly good prospects for expansion after output declined in 1970 for the first time in 12 years. Productivity is rising, short-term interest rates are moving lower, and housing is strengthening materially. The stock market also continues its gains. But despite the settlement of the auto strike, output does not yet appear sufficiently buoyant to reduce unemployment or to make big personal income gains. And rising costs, though slowing, remain a critical problem, affecting both consumers' real income and corporate profits.

Major GNP components, change from previous quarter

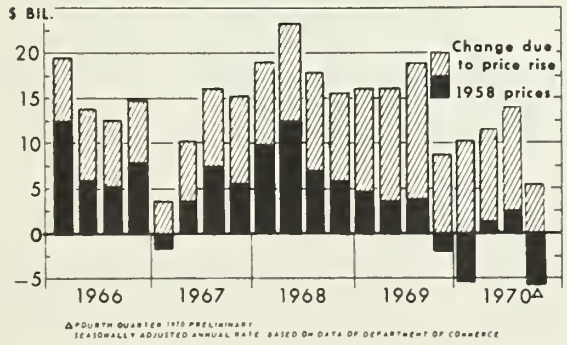
Item	1970		
	II	III	IV[1]
	Billion dollars		
Total change in GNP	11.6	14.4	5.4
Consumption	11.3	7.7	5.5
Private nonresidential fixed Investment	.2	.8	-2.2
Housing	-.7	.8	2.8
Inventory[2]	1.5	2.4	-1.4
Net exports	.6	.1	-1.5
Government	-1.2	2.6	2.2

[1] Preliminary. [2] See footnote 1, text table, below.

Dominated by a severe auto strike, the fourth quarter was disappointing. The drop in domestic new car sales slowed gains in total consumer expenditures. Business investment, net exports, and Federal expenditures declined. Moreover, additions to business inventories were smaller while State and local government expenditures advanced more slowly than in the previous quarter.

GROSS NATIONAL PRODUCT

Change From Previous Quarter



Outlook for 1971

Steel stockpiling by major users in anticipation of a possible strike and catch-up auto production are pepping up the current business climate. The impetus from this pickup, combined with expansionary fiscal and monetary policies, should bolster economic activity throughout the year. Recent liberalization of depreciation allowances will stimulate business plans for new plant and equipment previously reported as being very restricted. In addition, power generating industries are likely to expand facilities to overcome energy shortages now threatening several regions.

Housing is expected to play a major role in the 1971 recovery as more funds become available to the mortgage market. State and local government expenditures, consumer outlays, and exports are also good bets to share in a general advance. Federal expenditures, down in 1970, will likely add strength in the second half. These positive demand factors and increased productivity will likely increase real output by around 3% over 1970's average.

GNP and final sales, change from previous quarter

Year		GNP	Final sales	Inventory change[1]
		Billion dollars		
1967:	I	3.7	14.0	-10.3
	II	10.1	15.2	-5.1
	III	16.4	12.2	4.2
	IV	15.0	13.7	1.3
1968:	I	19.0	26.4	-7.4
	II	23.2	15.5	7.8
	III	17.7	19.8	-2.2
	IV	15.6	14.5	1.1
1969:	I	16.2	18.1	-1.9
	II	16.1	15.7	.5
	III	18.9	15.3	3.4
	IV	9.1	13.3	-4.1
1970:	I	7.8	13.4	-5.6
	II	11.6	10.2	1.5
	III	14.4	11.9	2.4
	IV[2]	5.4	6.8	-1.4

[1] Represents the difference in the rate of change in business Inventories. For example, the change in business inventories in the fourth quarter of 1970 ($4.1 billion) less the change in the third quarter of 1970 ($5.5 billion)equals minus $1.4 billion. [2] Preliminary.

Rising wage rates, some further reduction in Federal personal tax rates, and increased transfer payments will lead to continued gains in disposable personal incomes. Advancing incomes will further increase consumption of food and other consumer items, especially if prices slow and personal saving rates decline further. For 1971, after-tax incomes may rise about 7%, somewhat less than the very large 8½ increase last year.

Despite the expected advance in output and income, the economy during much of this year will likely be operating at well below its full employment growth rate of around 4½%. Accordingly, unemployment probably will continue fairly high this year.

Government Receipts and Expenditures

Government expenditures rose during the final months of 1970. State and local governments slowed their increases but Federal outlays leveled after declining sharply earlier last year. Although Vietnam withdrawals allowed defense expenses to be cut, non-defense purchases rose for the first time in over a year. Nevertheless, the annual rate of fourth quarter Federal expenditures was $98.4 billion, $3.7 billion below a year earlier.

Federal programs are scheduled to expand once again as needs of the public sector grow. Purchases are expected to rise above present levels in the first half of 1971 with some of the increase due to rising costs of mandatory programs. Moreover, the proposed budget for fiscal 1972 (beginning this July) recommends funds for additional programs such as pollution control, family income plans, and improved transport systems.

With defense expenditures likely to rise later in the year, tax rates below a year earlier, and the economy running below full employment, Federal outlays will continue to exceed receipts throughout calendar 1971. This deficit will put needed funds into the private sector. Receipts should grow and the deficit diminish as the economy recovers from its 1969/70 pause.

Federal receipts and expenditures, national income basis[1]

Item	1969	1970	
	Second half	First half	Second half[2]
	Billion dollars		
Receipts	201.4	196.3	194.8
Personal tax	96.2	93.4	90.1
Corporate profits tax	38.4	34.8	[3] 35.1
Indirect business tax	19.4	19.4	19.8
Social insurance	47.4	48.6	49.8
Expenditures	194.2	204.3	208.1
Goods and services	102.3	101.0	98.5
Transfer payments	52.8	59.8	64.1
Grants to State and local governments	20.9	24.0	24.8
Net interest paid	13.6	14.3	14.8
Subsidies less surplus	4.8	5.3	5.8
Surplus or deficit	7.2	-8.0	-13.3

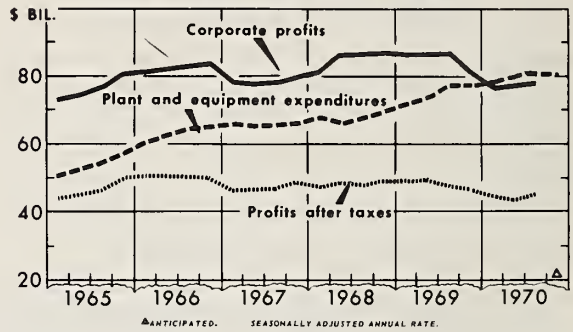
[1] Calendar years, seasonally adjusted annual rates. [2] Preliminary. [3] Estimated.

Expenditures by State and local governments rose about 10% in 1970, slightly less than in 1969 and 1968. For 1971, these expenditures are expected to accelerate as credit eases, Federal aid increases, and local jurisdictions take on new responsibilities.

Investment Demand

Business fixed investment, one of the strongest sectors of demand in the 1968/69 expansion, inched forward during most of 1970 but fell significantly in the fatal fourth quarter. Discounting price increases, expenditures for both structures and producers' durable equipment averaged below their 1969 levels throughout the year. Defense and aerospace corporations, hurt by a change in national priorities, closed many establishments causing widespread unemployment and loss of personal and corporate income. Manufacturers of consumer durables also cut operations with the same results.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



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Shutdowns by heavy manufacturing placed an additional strain upon other industries already hit by rising labor and material costs and sluggish demand. Layoffs also were large at technical and managerial levels and expenses were trimmed in many financial and service areas. Tight money markets and loss of equity in the stock market compounded this situation, causing corporate financing problems.

The 1970 investment pause, while widespread, proved relatively mild in certain respects. Corporate profits as well as the stock market made comebacks as the year progressed despite the auto strike. And the economy had enough strength to provide the basis for a housing recovery in the second half of 1970 as financial conditions improved. Moreover, inventory levels remained low enough to avoid excess accumulation.

Consumer Demand

Consumer demand slowed progressively as 1970 wore on. Rising real disposable personal income in the first

half, accelerated by tax reductions and larger transfer payments, helped shoppers buy more services and nondurable goods including larger quantities of food. But smaller income increases, higher savings, and finally the auto strike modified this trend by the fourth quarter. Nevertheless, the public's expenditures for food and beverages were well above a year earlier as the year ended.

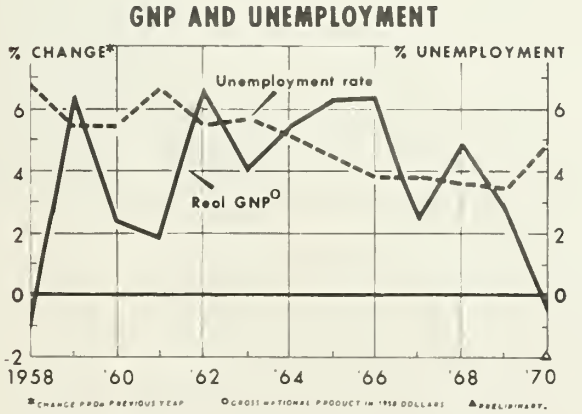
If the economy improves as expected in 1971, consumer demand will pick up. Easing prices in some sectors may channel a greater portion of income into expenditures. Consumers have been somewhat cautious and selective, awaiting some price relief. With housing booming, an improvement in durable goods buying is very probable.

Employment

Unemployment rose dramatically in 1970, increasing from about 3 million (seasonally adjusted) in January to about 5 million by year's end. The slowing economy has not been able to absorb most new entrants into the labor force, those workers laid off at defense and aerospace establishments, and servicemen returned from Vietnam. In addition, the strike in the auto industry caused layoffs of workers in related or dependent industries in the third and fourth quarters.

The General Motors strike was settled but some other labor disputes threaten. Besides the steel workers' contract coming up, other problem areas include farm field workers, aluminum, stevedoring, coal, and railroad workers, and a number of municipal civil servants. Major issues will include compensation for "cost-of-living" increases experienced in recent years.

Attempts to expand the economy to relieve unemployment face a difficult task. Employers, trying to keep costs down, are somewhat reluctant to expand their working force without the prospect of accelerating sales. But these sales depend heavily on an improved employment situation.



Prices

Prices have continued to advance sharply in recent months after slowing somewhat earlier. Previously lower food product prices had slowed the rise in wholesale and retail prices during 1970. But prices rose slightly more than seasonally for some crop and livestock products during January, and prices for nonfarm items continued their trend upward.

The gross national product deflator also advanced at year's end, rising almost 5¾% at an annual rate in the fourth quarter. Gains in output expected in 1971 should slow overall price increases somewhat. In addition, Government caution against large price increases may put pressure upon large corporations and unions to modify their price and wage demands.

Major personal income components, change from previous quarter

Item	1970 quarter		
	II	III	IV[1]
	Billion dollars		
Personal income	19.0	5.9	6.2
Wages and salaries	7.6	4.3	1.6
Manufacturing	-1.1	.1	-3.9
Nonmanufacturing	2.6	4.8	4.2
Government	6.2	-.6	1.2
Other Income	2.0	2.7	1.4
Transfer payments	9.6	-.7	3.4
Social Insurance payments (minus)	.3	.3	.1
Personal tax payments	.7	-3.5	2.3
Disposable personal income	18.3	9.4	3.9
Personal outlays	11.6	8.1	5.8
Personal savings	6.7	1.2	-1.8

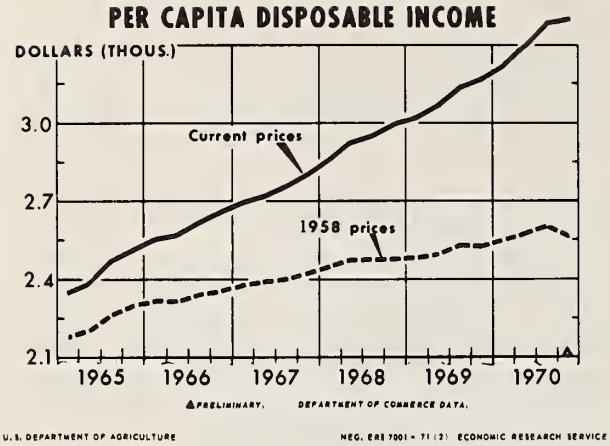
[1] Preliminary.

Monetary Situation

The Nation's money stock (currency plus demand deposits) is growing at about a 6% rate. This pace is between the rate advocated by those who favor rapid economic expansion to absorb the unemployed and the rate urged to avoid inflationary stimulation. Coupled with decelerating demand, the monetary growth has eased money market pressures.

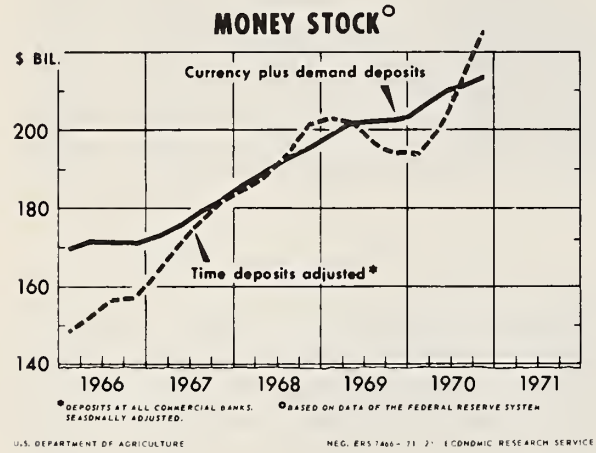
In line with these developments, most major banks have reduced their prime interest rates to 6%, down significantly from the 8½% peak reached early last year. And mortgage rates are edging downward in many sections of the country. This trend is also present in the commercial bond, government security, and equity areas as corporate profits point upward and liquidity problems moderate.

The Federal reserve banks reduced the discount rate (fee charged on loans to member commercial banks) from 5½% to 5¼% in early January and later in the month to 5%. This rate was last in effect in April 1968. The discount rate had been raised in late 1968 and 1969 to ease demand-pull inflation. The present reduction may ease prices by lowering credit costs.



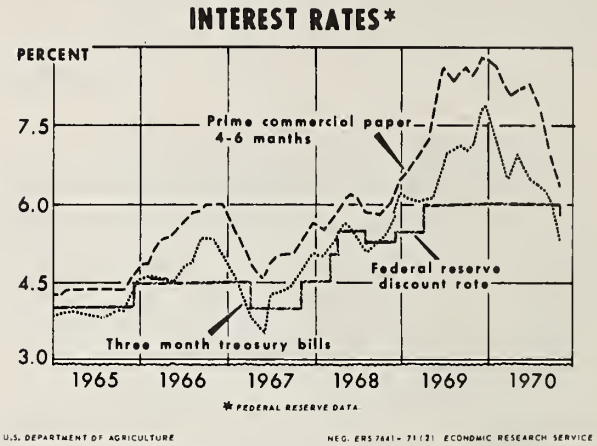
Foreign Trade

The U.S. net balance of exports of goods and services in 1970 almost doubled 1969's $1.9 billion balance. But preliminary data indicate that the net was smaller in the fourth quarter of 1970 for the first time in over a year. Imports accelerated at year's end while exports remained relatively stable.



The 1970 merchandise trade surplus (which does not include services) reached $2.7 billion last year compared with a $1.3 billion surplus recorded for 1969. Expected strength in U.S. consumer demand in 1971 may accelerate imports while foreign demand may ease from 1970 peaks. Agriculture, machinery, computers, electronic components, chemicals, and certain iron and steel-mill products should be our largest export gainers.

Foreign cars continue to gain ground in the U.S. market and may reach 15% of total auto sales in 1971. Higher price tags announced by Detroit in late December for mini-compact cars have apparently made them less competitive.



Balance of Payments

Preliminary data indicate that the U.S. balance of payments improved on a liquidity basis in 1970. This development resulted largely from our trade surplus last year and the fact that our 1969 position was very poor. The gain in 1970 would have been much stronger but net outflows of capital were heavy. Foreign purchases of U.S. common stocks declined as the Dow-Jones Index fell in the first half of the year and U.S. corporate funds for direct investment abroad rose.

THE 1972 AGRICULTURAL BUDGET

Employing the idea of a "full employment" budget in an effort to promote economic expansion, President Nixon presented the Budget of the U.S. Government to Congress on January 29. It calls for expenditures equaling the level of revenues that the economy would generate under the existing tax system at full employment. The new budget proposes spending $229.2 billion in fiscal 1972, an increase of $16.5 billion over the present estimate for fiscal 1971.

Budget outlays by function[1]

Function	1970 actual	1971 est.	1972 est.
	Billion dollars		
National defense	80.3	76.4	77.5
Income security	43.8	55.5	60.7
Interest	18.3	19.4	19.7
Health	13.0	14.9	16.0
Commerce	9.3	11.4	10.9
Veterans	8.7	10.0	10.6
Education	7.3	8.3	8.8
Agriculture	6.2	5.3	5.8
General government	3.3	4.4	5.0
Community and housing	3.0	3.9	4.5
International	3.6	3.6	4.0
Space	3.7	3.4	3.2
Natural resources	2.5	2.6	4.2
Other*	-6.4	-6.4	-1.8
Total outlays[2]	196.6	212.8	229.2
Total revenues	193.7	194.2	217.6
Deficit	2.8	18.6	11.6

[1] All years are on a fiscal basis. Outlays include expenditures and net lending. [2] Totals may not add due to rounding.

*Net receipts.

Agriculture and rural development

Subfunction	1970 actual	1971 est.	1972 est.
	Billion dollars		
Farm income stabilization	4.6	4.1	4.2
Agricultural land and water resources	.3	.4	.3
Rural housing and public facility	.6	.1	.4
Research and other agriculture services	.7	.8	.9
Total*	6.2	5.3	5.8

*Total includes offsetting receipts.

The proposed 1972 Budget, in addition to being detailed by department and agency, is also divided into major functional categories for analysis. The table shows that all functions, with the exception of space and commerce and transportation, are scheduled to receive larger outlays in fiscal 1972 than in fiscal 1971. Reflecting welfare reform and increased social security benefits, income security programs, the second largest functional category, will account for almost a third of the budget increase during this period.

Constrasting their decline in fiscal 1971, expenditures for agricultural and rural development are scheduled to increase by 10% in fiscal 1972 to $5.8 billion. Farm income stabilization and aid to rural housing and public facilities will account for the bulk of this increase. Agricultural research will also receive additional funds.

The USDA budget proposed for fiscal 1972 amounts to $9.5 billion compared with $8.7 billion estimated for 1971 and $8.3 billion in 1970. Increased emphasis will be on rural development, evironment, consumer protection, food assistance, and expanding overseas markets. Making credit available to low-income farmers will be given special attention.

USDA Budget outlays[1]

Item	1970 actual	1971 est.	1972 est.
	Billion dollars		
Agricultural and rural development	6.2	5.3	5.8
Health and welfare	1.0	2.2	2.5
Food for Peace	.9	1.0	1.0
Natural resources	.6	.7	.6
Other*	-.4	-.5	-.4
Total	8.3	8.7	9.5

[1] All years are on fiscal year basis. Outlays include expenditures and net lending.

*Net receipts

The USDA through the Forest Service, Food and Nutrition Service, and other agencies, also plays an important role in managing national resources, domestic food assistance programs, child nutrition, and Food for Peace. The Food Stamp Program is to be greatly expanded in fiscal 1972. An estimated average of 11 million people will be aided. The program has become an important element in the overall strategy to combat poverty, and will be closely integrated with the proposed welfare reform.

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